Supreme Court, U.S.
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No. 79-1533

In the

Supreme Court of the United States

OCTOBER TERM, 1979

W.R. GRACE & CO., INC., a corporation,
Petitioner,

vs.

E-T INDUSTRIES, INC. and PYRAMID ENTERPRISES,
Respondents.

W.R. GRACE & CO., INC., a corporation,
Petitioner,

vs.

WESTERN U.S. INDUSTRIES, INC., a corporation,
Respondent.

BRIEF OF RESPONDENTS E-T INDUSTRIES, INC. AND PYRAMID ENTERPRISES IN OPPOSITION TO THE PETITION FOR WRIT OF CERTIORARI FILED BY W. R. GRACE AND CO., INC.

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CORRECTED STATEMENT OF THE CASE

The facts which support the findings of the trial court and the Ninth Circuit Court of Appeals are well summarized in the opinions below, reproduced in the Appendix Volume; Respondents E-T INDUSTRIES, INC. and PYRAMID ENTERPRISES ("E-T") will not tender a complete statement of facts. However, Petitioner, W.R.

GRACE & CO., INC. ("Grace") has omitted many facts that were material to the resolution of this case, including those relating to the character of Grace's conduct in the United States Patent and Trademark Office and in the courts, as found by the courts below.

For this Court to grant Certiorari based upon the facts selectively set forth in Grace's petition would be to bring on a totally fictitious and non-existent case before the Court, one much different from the case tried in the District Court and affirmed, *in toto*, on appeal. E-T must therefore correct Grace's omissions.

Grace presents as a "fact" the innocence of Floyd Merritt, President of Grace's Appliance Division, manufacturer of the wheels in question, ignoring the findings of the courts below. Using this false premise as a springboard, Grace argues that failure to recognize Merritt's innocence was the only basis for the decisions of the courts below. This is plainly not true.

Apart from clear findings that Merritt had engaged in inequitable conduct, both the trial court and Court of Appeals found many other grounds to justify findings of patent invalidity and the award of attorney's fees; the grounds were so numerous as to constitute a quintessential example of misuse and abuse of both the patent system and the judicial system. Grace's conduct is rife with instances of such abuse, and Grace's case is replete with evidence plainly supporting findings of invalidity and inequitable conduct under many theories. Any statement of the case must thus include these matters.

The trial court specifically found Grace, Merritt, and other Grace employees to be guilty of unclean hands in dealing with the Patent Office during prosecution of the

Mochel patent application [Finding No. 17], and the Court of Appeals, in affirming the lower court, found any protestation of innocence on Merritt's part to be "a dubious assumption on this record" (608 F.2d at 1219).

Grace's assertions of innocence on the part of its agents and employees have no business being included in a statement of facts. Grace is taking issue with the factual findings of the courts below, an argument which has no place before this Court.

The trial court found that Merritt had executed a false affidavit in prosecuting the Mochel patent application on behalf of Petitioner, and that other acts of Petitioner's employees and/or agents also amounted to unclean hands [Finding No. 17].

In the face of the trial court's findings and conclusions, affirmed and left undisturbed on appeal, Grace *cannot* now state that the Merrit affidavit was the sole basis upon which it was concluded that Grace was guilty of inequitable conduct before the Patent Office, that the Mochel patent was not invalid as a matter of law, and that the award of attorney's fees under 35 U.S.C. §285 was improper. The trial court found:

- The Mochel patent was invalid in view of prior art (the existence of which was not in issue at trial) comprising the Chapparal wheel, the E-T IV wheel, the Rader wheel, and the Trans-American wheels;
- Mochel based his wheel design upon the Chapparal wheel, yet Grace never disclosed knowledge of the Chapparal wheel to the Patent Office, and the arguments used by Mochel to gain allowance of the patent application could not have been presented to the Patent Office had the Patent Office been aware of the Chapparal wheel;

- The patent was invalid under 35 U.S.C. §102 because the differences between the patent and the closest pertinent prior art were insubstantial;
- The patent was invalid under 35 U.S.C. §103 because it is no more than what an ordinary designer would have done to modify the Chapparal wheel;
- The patent was invalid under 35 U.S.C. §171 because the differences between the prior art and the patent were functional rather than ornamental;
- Commercial success urged to the Patent Office by Grace was unproved, and any commercial acceptance of Grace's wheel resulted from heavy financing and promotion undertaken by Grace through its Appliance Division;

In addition, the trial court held:

- The patent was invalid because Grace and its employees Mochel, Merritt and Harness were guilty of unclean hands and/or fraud before the Patent Office;
- The award of attorney's fees was based upon many acts on the part of Grace, including—
  - (a) withholding information from the Patent Office concerning the Chapparal and Trans-American wheels;
  - (b) filing affidavits of Merritt which were inaccurate and misleading;
  - (c) misrepresenting prior art before the Patent Office, particularly, the Rader wheel;
  - (d) failure of Merritt to verify the information contained in his affidavit concerning advertising and promotion expenditures;
  - (e) the fact that Grace should have known that reckless and inaccurate representations as to sales would affect the Patent Office's consideration of the Grace application;
  - (f) over-reaching the patent in the courts and pursuing suit based upon a hopelessly invalid patent; and

  - (g) concealing the existence of relevant prior art during discovery.

Thus, Grace has created an artificial question upon which review of the rulings below is sought: this question cannot be dispositive of the present case unless we abandon all of the clearly correct rulings of the courts below.

There was more than ample evidence to be considered by the trial judge who, sitting as the trier of fact with respect to E-T, concluded that the Grace patent was invalid several times over, that Grace did more than simply present false evidence of commercial success to the Patent Office, and that the information withheld from the Patent Office as well as the information furnished to the Patent Office, taken together with Grace's bad faith, provided a basis for findings of invalidity and an award of attorneys' fees. The Court of Appeals acted properly in affirming.

Grace's employees and/or agents were not, as Grace states, innocent possessors of information relating to the patent application, working "somewhere" within Grace's corporate structure. Merritt was not only President and chief executive officer of Grace's Appliance Division, he was an attorney and a CPA, and was duty-bound thrice over to inquire into the accuracy of precisely the types of statements advanced by Grace to the Patent Office. It was an act of calculated recklessness on his part to fail to do so.

Mochel was the alleged inventor of Grace's wheel, who was directed to begin with the Chapparal wheel as a basis for his design, and who thus certainly knew that the Chapparal wheel played a significant part in the eventual

appearance of Grace's wheel, a fact which was assiduously kept from the Patent Office.

Harness was an attorney who dealt with the Patent Office on a regular basis and who was well aware of the high degree of candor required in matters before the Office.

These were no warehouse employees or minor managerial functionaries. As President and General Manager of Grace's Appliance Wheel Division, Merritt was intimately involved with the sale and advertising of Grace's Wire Mag wheels, as well as with every step of the prosecution of Grace's patent application. All were reported to Merritt. Moreover, the facts misstated by Merritt to the Patent Office were presented in response to specific inquiries by the Patent Examiner: these very misrepresentations were made in response to pointed inquiries from the Examiner and were relied upon by the Examiner, to grant the invalid patent.

Grace itself is a corporation of the highest sophistication, using batteries of attorneys within and without the corporation, all of whom knew better than to mislead the Patent Office and misuse the patent system and the judicial system, as was done.

Thus, Grace has not only misstated the record in its statement of the case, but has fabricated a question upon which certiorari is sought from an artificial and arbitrary twisting of the facts determined by the courts below.

REASONS FOR DENYING THE WRIT

Contrary to Grace's representations, the decision of the Court of Appeals in this case represents no departure from already well-settled law, raises no question of substance to form a basis for this Court's interest, and, in view of the many other bases supporting findings of invalidity and an award of attorney's fees, presents no question that would alter the outcome of the present case. *Rice* v. *Sioux City Memorial Park Cemetery,* 349 U.S. 70, 75 S.Ct. 614 (1955).

Moreover, even if resolution of the question raised could alter the decisions below, Grace's much touted conflict among the circuits with respect to conduct before the Patent Office is non-existent.

Persons dealing with the Patent and Trademark Office have an uncompromising duty of candor, particularly where dealing with matters peculiarly within the knowledge of the parties seeking patent protection. *Precision Instrument Manufacturing Company* v. *Automotive Maintenance Machinery Company,* 324 U.S. 806, 65 Sup.Ct. 993 (1945); see also *Monolith Portland Midwest Co.* v. *Kaiser Aluminum & Chemical Corp.,* 407 F.2d. 288 (9th Cir. 1969).

Contrary to Grace's assertions, the courts are uniform in finding inequitable conduct to include conduct short of fraud in dealings before the United States Patent and Trademark Office.

Recently, in *True Temper Corp.* v. *CF&I Steel Corp.,* 601 F.2d. 495 (10th Cir. 1979), the Tenth Circuit Court of Appeals reviewed decisions of the various circuits relating to inequitable conduct, and correctly determined:

> ". . . because of the strong public interest in high standards of disclosure to the Patent Office, it also has been said that it may suffice to show 'nothing more than that the misrepresentations were made in an atmosphere of gross negligence as to their truth' [Citation omitted].
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> Recklessness in making erroneous submissions to the Patent Office may also be sufficient to warrant a refusal to condone conduct before the Patent Office." [Citations omitted].

The findings of the trial court, as affirmed, at the very least establish such conduct and support the relief granted, and Grace has made no showing otherwise.

Certainly, *Pfizer, Inc.* v. *International Rectifier Corp.*, 538 F.2d 180 (8th Cir. 1976), *cert. den'd.* 429 U.S. 1040 (1977) provides no basis to depart from well-settled law. *Pfizer* simply held that questions of material fact remained which precluded summary judgment.

There were no such summary proceedings in the present case. Grace went to trial, presented its witnesses, its exhibits and all of its testimony to the trial judge, who was the trier of fact with respect to E-T.* The

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* Grace again misleads when it argues that Civil Action No. 74-2089-R, *W. R. Grace & Co., Inc.* v. *E-T Industries, et al.*, should, under some theory, be treated as a jury case, or that the motion brought under Rule 41(b) somehow precludes a trial judge from weighing the evidence as a trier of fact, and from making findings and conclusions thereon.

Interestingly, findings of invalidity and the award of attorneys' fees based upon Grace's conduct before the Patent Office would still have been proper even if the trial court had granted summary judgment in favor of E-T. See *Farmer Bros. Co.* v. *Coca-Cola Co.*, 384 F.Supp. 595 (C.D. Cal. 1974).

court's rulings were entered in response to a motion under Rule 41(b), Federal Rules of Civil Procedure, brought at the close of Grace's case. It is hard to see how any argument can be made that Grace was somehow cheated from an opportunity to present facts, witnesses, or exhibits. Postponing a decision by the trial court until E-T had presented its defense "which with reasonably efficient advocacy would [have done no] more than enlarge the record", would not have dictated any different result. *Barr* v. *Equitable Life Assurance Society,* 149 F.2d 634 (9th Cir. 1945).

In *Schnadig Corporation* v. *Gaines Manufacturing Company, Inc.,* 494 F.2d 383 (6th Cir. 1974), another case relied upon by Grace, the Sixth Circuit Court of Appeals refused to apply the doctrine of inequitable conduct where no showing was made that prior art was intentionally or negligently concealed, that the concealed art was known to the plaintiff, or that the art, while more pertinent, was not anticipatory or indicative of obviousness. As we have shown above, *every one of these factors, and more, were found to exist in the present case.* There is not the slightest suggestion that, had the present case been brought before the *Schnadig* court, that court would not have reached the same result as was reached by the Ninth Circuit Court of Appeals.

In *Rice* v. *Sioux City Memorial Park Cemetery,* 349 U.S. 70, 74, 75 S.Ct. 614, 616 (1955), Mr. Justice Frankfurter wrote:

> "A federal question raised by a Petitioner may be 'of substance' in the sense that, abstractly considered, it may present an intellectually interesting and solid problem. But this Court does not sit to satisfy a scholarly interest in such issues. Nor does it sit for the benefit of the particular litigants. [citations omitted]. 'Special and important reasons' imply a reach to a problem beyond the academic or the episodic."

Grace has placed no question "of substance" before this Court by its petition, and this Court's prior and well-established procedures deny access to a party whose only ground for seeking this Court's review is dissatisfaction with the outcome of proceedings in a lower tribunal, rather than any important federal question governing that outcome.

ARGUMENT

I. THE RESULT IN THE PRESENT CASE IS SUPPORTED INDEPENDENTLY ON GROUNDS OTHER THAN THOSE URGED BY GRACE.

The trial court found a host of reasons why, at law, the Grace patent was invalid, and why an award of attorneys' fees under 35 U.S.C. §285 was justified. See E-T's Corrected Statement of the Case, *supra.*

Grace's assertion that Merritt's conduct was the sole basis upon which Grace was found liable for inequitable conduct before the Patent Office conveniently overlooks the plain fact that the Court of Appeals left undisturbed the findings of the trial court with respect to Grace's failure to call the patent examiner's attention to the existence of relevant prior art known to Grace [Finding No. 17(a)], the mischaracterization of certain items of prior art by Grace while prosecuting the Mochel patent application [Finding No. 17(c)], and the effect of the distributors' affidavits and Merritt affidavits presented to the Patent Examiner, namely gaining allowance of patent application [Conclusion No. 8].

It is a long-settled principle of review based upon certiorari that lower court findings will not be reviewed where there are circumstances to support said findings independent of the question upon which certiorari is urged. See *Rice* v. *Sioux City Memorial Park Cemetery,* 349 U.S. 70, 75 S.Ct. 614 (1955), and cases cited thereat. It is an equally well-settled principle of review by certiorari that the Supreme Court is not an advisory body and does not sit for the benefit of the litigants but rather for the reso-

lution of questions of substance for which there are "special and important reasons" for resolving such questions. *Rice,* supra.

As an example, the trial court found that Grace had withheld the Chapparal wheel from the Examiner [Finding No. 17(d)], that the differences urged by Grace between the references cited by the Patent Office and the patent application could not have been successfully argued had the Patent Office known of the existence of the Chapparal wheel [Conclusions Nos. 4 and 7], and that the named inventor of Grace's wheel had knowledge from the very beginning that the Chapparal wheel would be relevant to any consideration of the Grace patent application [Finding No. 11].

These findings alone would have furnished a basis upon which attorney's fees could be properly awarded, even on summary judgment, let alone under Rule 41(b).

The trial court also had the opportunity to hear the testimony of the witnesses first hand, to weigh the testimony of each witness, to determine the credibility of the testimony elicited, and to make its findings of fact and conclusions of law against this background.

In its review of the trial court's conduct, the Court of Appeals found no abuse of discretion, no prejudice on the part of Grace, and no errors of law with respect to the holdings of the trial court.

Based upon such a record, it is clear that no request for certiorari should be allowed in this case.

II. NO FEDERAL QUESTION OF ANY IMPORT IS RAISED BY GRACE IN ITS PETITION.

As discussed hereinabove, the questions presented by Grace neither reflect the actual issues present in this case and upon which the rulings of the lower courts were based, nor do they raise any other grounds for review by certiorari.

If we were to restate the questions presented by Grace in correct terms, and consistent with the issues argued below, the questions would reduce to one of whether or not a corporation can be precluded from enforcing an issued patent where it is demonstrated that agents or employees of the corporation, playing a major role in the corporation's efforts to achieve allowance of the patent, failed to submit items of prior art peculiarly within their knowledge to the Patent Office, and submitted evidence of commercial acceptance with a calculated reckless disregard for verifying the accuracy of the information submitted.

The courts below have clearly answered this question in the affirmative, well within the prior guidelines set down by this Court and the courts of the individual circuits. In addition, the Court of Appeals correctly determined that the motivation for Grace's acts was to obtain allowance of the patent, and that, in fact, the patent was issued based precisely upon Grace's blithe and cavalier misrepresentations to the Patent Office. In so doing, the Court of Appeals left undisturbed the trial court's finding of fraud [Conclusion No. 7].

Contrary to Grace's assertions, part of the court of Appeals affirmance was based upon Grace's reckless conduct, similar to that described in *Monolith Portland Midwest Company* v. *Kaiser Aluminum and Chemical Corporation,* 407 F.2d 288, 297 (9th Cir. 1969) holding it to be

sufficient that Grace's "course of conduct *** reveals calculated recklessness about the truth".

This interpretation has been held to be correct when evaluating the quality of a party's conduct before the Patent Office. In *True Temper Corp.* v. *CF & I Steel Corp.*, 601 F.2d 495 (10th Cir. 1979), the Court of Appeals for the Tenth Circuit reviewed the many grounds urged for finding inequitable conduct on the part of a party before the Patent Office and concluded:

> "It is, of course, well established that the exercise of fraud, inequitable conduct, or bad faith in prosecution of a patent application before the Patent Office may result in unenforcability of the patent ultimately issued [citations omitted]. This rule of equity stems from the 'paramount interest [of the public] in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct' [citing *Precision Instrument Manufacturing Company* v. *Automotive Maintenance Machinery Company*, 324 U.S. 806, 816, 65 Sup.Ct. 993, 998 (1945)].
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> From our consideration of the authorities and of the paramount public interest in 'seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope', [citations omitted], we conclude that intentional fraud on the Patent Office is not the only ground for withholding enforcement of patents.
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> "We feel instead that a standard like that stated by the Court of Customs and Patent Appeals in *Norton* v. *Curtiss, supra.*, 433 F.2d at 796 should be applied, also refusing to enforce patents where 'misrepresentations [are] made in an atmosphere of gross negligence as to their truth', [citation omitted], or where there is reckless conduct in representations to the Patent Office, as some cases say."

Any review of the grounds upon which the various circuits uphold relief for the inequitable conduct of a party before the Patent Office clearly demonstrates that well-settled grounds exist for the decisions of the courts below, that such grounds are entirely consistent with the rationale and standards set forth by the various courts, and that any attempt by Grace to construct an artificial inconsistency of opinion among the circuits rests upon semantic manipulation rather than a clear and logical consideration of the rule regarding inequitable conduct and the reasons behind the rule.

However and whatever Grace argues, it cannot be denied that, apart from the fraud that occurred, Grace's conduct was inequitable, that Grace acted with calculated recklessness in discharging its obligations before the Patent Office, that it deceived the Patent Office into issuing an invalid patent, that it enabled Grace to unfairly and unwarrantedly bring suit and stretch the ill-gotten patent against parties later found innocent of infringement, and that it amounted to no more than a thinly veiled attempt by Grace to secure exclusive rights where none should properly have been granted.

CONCLUSION

It has traditionally been the role of this Court to deny certiorari in cases wherein the decisions urged by the lower courts may be supported by the determination of facts and issues other than those argued in the Petition for Writ of Certiorari. No clearer occasion for the invocation of this rule can be found than in the present case.

Grace has raised no important federal questions worthy of this Court's attention, has demonstrated no prejudice, and has failed to establish that the lower court proceedings were in any way incomplete, incorrect, or unsupported amply by fact and by law. Accordingly, Grace's Petition for Writ of Certiorari should be denied.

Respectfully submitted,

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